

**2012 Annual General Meeting
8 November 2012**

Chairman's Address

Ladies and Gentlemen,

Welcome to our Annual General Meeting.

Financial Year 2012 saw persistently difficult trading conditions experienced by the retail sector as a whole. Our customers, who are particularly sensitive to adverse macro economic conditions, both locally and abroad, exercised caution in their discretionary spending. Unfortunately this is reflected in our results, with sales from continuing operations of \$572.5 million being essentially flat on prior year. The product cost inflation driven by the historically high cotton prices was a challenge throughout the year, but thankfully is now no longer an issue. The size of our store portfolio has meant that the Company is inherently susceptible to inflationary increases in rent and wages, and despite our best efforts to contain costs, this has squeezed operating margins, resulting in an EBITDA profit of \$21.7 million and a net loss after tax of \$2.8 million for the year.

Notwithstanding the substantial challenges the Group faced, the cautious approach adopted by the Board and Management was intended to leave the Company well positioned to take advantage of a change in consumer sentiment. Consequently, during the year the Company repaid \$15.5 million of debt and achieved a net cash position of \$4.1 million by the year end. This contrasts sharply with some other retailers that have been forced to close with substantial debts.

Your Board will continue to be prudent as the retail landscape undergoes rapid change due to the structural changes in retail itself with the advent of digitisation and globalisation, as well as the ongoing macroeconomic uncertainties that we expect will persist for some time. Whilst a final dividend for the 2012 Financial Year has not been paid, as always we will review the Company's ability to fund dividends following the completion of each half year.

Specialty Fashion Group's 893 stores will remain at the core of our business. During the year we opened 29 stores, but also closed 27 that were underperforming. This formed part of our ongoing store review process. We will continue to review our store portfolio with a view to improving performance, and expect to close or exit more stores in the current financial year. Online sales reached over 2.5% of total revenue in the year in review and are continuing to grow as a percentage of total revenue. Notwithstanding that online will become an increasing part of our business, our stores often represent the initial point of contact between us and our customers. Gary will expand on the role that online will play in our omni-channel retail business in future during his address.

In addition to reviewing our store costs, we are working on ways to reduce the cost of product. This is achieved through increasing the proportion of product that we source directly from factories in Asia. Because we work directly with the factories, we have greater negotiating leverage, and improved pricing transparency. We have invested in our Shanghai office which has a strong QC capability meaning that cost benefits are not achieved at the expense of quality. With the cotton crisis over, we have so far in the current Financial Year been able to further improve gross margin.

During the year we have increased our customer database to 7.3 million memberships, of which 2.1 million have valid email addresses. We are becoming increasingly sophisticated in how we analyse customer behaviour and are able to communicate with them in a personalised manner. We are able to communicate directly with an estimated 55% of Australia's female population which gives us tremendous strength in the market place.

Changes to the Board

I am pleased to introduce three new non-executive directors. Michael and Ashley Hardwick joined our Board on the 25th May and have already brought great value to the Company through sharing their experiences as amongst other things, executives of Cotton On, one of Australia's most successful apparel retailers. Megan Quinn joined our Board recently on the 30th October. She has the rare background of an e-commerce veteran, having co-founded the online fashion company Net-A-Porter in 2000. We have a very strong combination of skills and experience across our Board to ensure we can appropriately support the Company as it continues to develop as an omni-channel retailer.

Looking Ahead

As a result of our strategies, together with the concerted efforts of management and team members throughout the business, we feel confident we are generally well placed in the market to be able to capitalise as conditions improve. We have seen an improvement in performance in the new financial year and Gary will elaborate on this further during his address.

The Board looks forward to continuing to work with our CEO, Gary Perlstein and his dedicated team. On behalf of the Board, I would like to thank Gary and his leadership team in particular for navigating through such a challenging year.

That concludes my address. It now gives me great pleasure to hand over to Gary for the CEO's address.

CEO's Address

Thank you, Geoff.

Good afternoon and welcome.

As Geoff pointed out, 2012 has proven to be another difficult year for Specialty Fashion Group with sales from continuing operations up only 0.4%, which in turn resulted in the EBITDA profit of \$21.7 million and after tax loss for the year of \$2.8 million. The highly competitive environment has meant significant discounting, and this, together with higher rental and wage costs, are the main drivers behind this result. Despite this challenging backdrop, the Board and Management has exercised caution during this period, saved costs where possible, and managed cash flow.

As retailers of women's fashion apparel, we are continually seeking innovative ways of running our business, and it is this aspect of our Company's culture that ensures we see our way through these tough times, and are well positioned to take advantage of improvements in consumer sentiment. At our leadership conference in September the core theme was 'Make your Mark', inspiring our team members to emulate everyday people, who have succeeded in changing the world for the better, despite considerable odds. I would like to show you the video that we shared to open the conference as I think it illustrates our spirit and desire to innovate and improve.

[SHOW VIDEO]

Despite our challenges, I am pleased to be able to report some successes we have had throughout the past year. As part of our desire to bring increasingly differentiated product offerings to our customers, we have invested significantly in our design and production capability, both in Sydney and in Shanghai. Our designers have been aligned with our brands and are creating product with our brands' unique and distinctive handwriting using original artwork. This becomes ever more important as international brands move into the Australian market – the days when mass market fashion retailers can imitate designs of global style setters and produce them in China have come to an end. The benefits of this strategy are positively impacting the current performance and we believe will continue to differentiate our offering in the competitive market place.

Our increased presence in China has brought us closer to our production base, thereby improving the consistency of product quality and creating pricing transparency. We have also thoroughly reviewed our overseas suppliers thereby rationalising our supply chain, without creating any excessive dependencies on any one supplier. Despite the cotton crisis we achieved gross margin improvements of 50 basis points during the financial year. We are seeing the benefits from this focus coming through in the first few months of the financial year.

We have also been working on creative ways to maximise the value of our substantial customer database. We have 7.3 million memberships, which is one of the largest databases of its kind in Australia, with 2.1 million valid email addresses. Our customer insights team provide detailed analysis of our customers' shopping habits and follow them on their journey through the omni-channelled retail experience we offer. We are able to engage in personalised communication using the most appropriate medium, timing and content. This is important as customers who shop through our multiple channels are 4.3 times more valuable than single channel

customers. We are starting to see that the impact of these insights and the focus we have put in over the past few years are giving us a real competitive advantage.

We have invested in our online platforms to provide an appealing shopping experience that compliments an in-store visit. All our brands now have e-commerce managers which allow the online sites to develop independently of the physical stores. City Chic is our most innovative brand and continues to push the boundaries of digitisation. Millers, with our oldest customer profile, have been embracing online since November 2011 with very positive results. In addition to our existing brands trading online, we launched Stylefix.com in July 2012 which is an online only retailer, and complements our existing online stores through offering our customers international brands and other products. This has given us a unique cost effective opportunity to learn and further hone our skills in leveraging off our existing customer data base. We have only just begun this journey. All these initiatives represent our commitment to increasing our share of the online market.

Whilst we are focused on the future of omni-channel retailing, we are committed to our stores which will always remain the cornerstone of our business. The stores remain the largest way of engaging with our customers, and the efforts of the store teams are crucial in introducing customers to new shopping channels. In the past year there has been a gradual increase in vacancies and landlords have accepted some downward pressure on rentals. We will continue to pursue rental reductions as our leases approach renewal, or alternatively rationalise our underperforming stores where no alternative exists. We remain focused to ensure that we only operate stores that can operate profitably in a deflationary retail sale price environment where store costs driven by wages and rent remain inflationary.

OUTLOOK

As Geoff mentioned, trading since July has been quite encouraging. We are achieving further improvements in gross margin as we'd expected, and also experiencing low single digit positive comparable store sales growth. Our brands have embraced the bright colour pallets that are the current season's trend, and our customers are excited by our products.

Despite these positive signs, we remain cautious with the all important Christmas period still to come. We remain of the view that consumers are fickle, and susceptible to becoming more cautious if there are any economic or political shocks that occur in the near term. Given the importance of the next two months trade to our business, we are unable to provide guidance of either sales or profit for the first half at this stage.

I would like to thank everyone at Specialty Fashion Group for their dedication over the past year. The outstanding effort of our whole 5,000 plus team, in very difficult times, places the Company in a strong position for the future.

Despite the disappointing performance over the last year, we are looking forward to the future with energy, passion and confidence.